

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



**CORRECTED
FISCAL NOTE**

HB 122 – SB 108

March 1, 2011

SUMMARY OF BILL: Increases the income exempt from Hall Income Tax (HIT) from \$1,250 to \$1,500 for individual filers, and from \$2,500 to \$3,000 for joint filers. Requires subsequent adjustments to the income exempt from HIT each year, beginning with tax year 2012, to reflect the rate of inflation as measured by the Consumer Price Index. Limits the income exemption thresholds for any tax year to \$2,500 for individual filers and \$5,000 for joint filers.

ESTIMATED FISCAL IMPACT:

On February 2, 2011, a fiscal note was issued estimating a fiscal impact as follows:

*Decrease State Revenue - \$2,039,100/FY11-12
\$2,283,800/FY12-13*

*Decrease Local Revenue - \$1,223,400/FY11-12
\$1,370,300/FY12-13*

Other Fiscal Impact – Fiscal impacts beyond FY12-13 are difficult to estimate because future rates of inflation are unknown. However, for any tax year where the maximum exemption thresholds are utilized, the decrease to state revenue is estimated to be \$10,195,300 and the decrease to local government revenue is estimated to be \$6,117,200.

This estimate erroneously assumed that no income tax savings will be spent in the economy on sales-taxable goods and services. Based on the new assumption that 50 percent of income tax savings will be spent in the economy on sales-taxable goods and services, the estimated impact is:

(CORRECTED)

**Decrease State Revenue – Net Impact - \$1,924,900/FY11-12
\$2,155,900/FY12-13**

**Decrease Local Revenue – Net Impact - \$1,182,700/FY11-12
\$1,324,600/FY12-13**

HB 122 – SB 108 (CORRECTED)

Other Fiscal Impact – Fiscal impacts beyond FY12-13 are difficult to estimate because future rates of inflation are unknown. However, for any tax year where the maximum exemption thresholds are utilized, the net decrease to state revenue is estimated to be \$9,624,400 and the net decrease to local government revenue is estimated to be \$5,913,300.

Assumptions:

- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.
- Based on information provided by the Department of Revenue (DOR), it is estimated there are approximately 150,000 taxpayers each year.
- The total number of taxpayers remains constant in subsequent years.
- DOR estimates that 55 percent of all taxpayers are single filers (82,500) and 45 percent are joint filers (67,500).
- Pursuant to Tenn. Code Ann. § 67-2-102, the tax rate is six percent on income derived on dividends from stocks or on interest from bonds.
- Increasing the exemption threshold for single filers by \$250 for tax year 2011 will reduce single-filer tax liabilities up to a maximum of \$15 per taxpayer $[(\$1,500 - \$1,250) \times 6.0\%]$.
- Increasing the exemption threshold for joint filers by \$500 for tax year 2011 will reduce joint-filer tax liabilities up to a maximum of \$30 per taxpayer $[(\$3,000 - \$2,500) \times 6.0\%]$.
- One-hundred percent of taxpayers qualify for maximum tax liability reductions.
- Pursuant to Tenn. Code Ann. § 67-2-112(a), the filing deadline for HIT returns is April 15th of each year following the taxpayer's tax year.
- One-hundred percent of taxes owed for any tax year are collected prior to June 30th of the following year.
- The decrease to HIT revenue for tax year 2011 (FY11-12) is estimated to be \$3,262,500 $[(\$15 \times 82,500) + (\$30 \times 67,500)]$.
- Pursuant to Tenn. Code Ann. § 67-2-119, local governments are allocated 37.5 percent of all HIT collections; the state retains the remaining 62.5 percent.
- The net decrease to state revenue for FY11-12 will be \$1,924,875 $[(\$3,262,500 \times 62.5\%) - (\$3,262,500 \times 50.0\% \times 7.0\%)]$; the net decrease to local government revenue will be \$1,182,656 $[(\$3,262,500 \times 37.5\%) - (\$3,262,500 \times 50.0\% \times 2.5\%)]$.
- An average annual rate of inflation of two percent for subsequent tax years.
- The exemption threshold for single filers for tax year 2012 is estimated to be \$1,530 $(\$1,500 \times 102.0\%)$; the exemption threshold for joint filers for tax year 2012 is estimated to be \$3,060 $(\$3,000 \times 102.0\%)$.
- Increasing the exemption threshold for single filers to \$1,530 for tax year 2012 will reduce single-filer tax liabilities up to a maximum of \$16.80 per taxpayer $[(\$1,530 - \$1,250) \times 6.0\%]$.

- Increasing the exemption threshold for joint filers to \$3,060 for tax year 2012 will reduce joint-filer tax liabilities up to a maximum of \$33.60 per taxpayer $[(\$3,060 - \$2,500) \times 6\%]$.
- The decrease to HIT revenue for tax year 2012 (FY12-13) is estimated to be \$3,654,000 $[(\$16.80 \times 82,500) + (\$33.60 \times 67,500)]$.
- The net decrease to state revenue for FY12-13 will be \$2,155,860 $[(\$3,654,000 \times 62.5\%) - (\$3,654,000 \times 50.0\% \times 7.0\%)]$; the net decrease to local government revenue will be \$1,324,575 $[(\$3,654,000 \times 37.5\%) - (\$3,654,000 \times 50.0\% \times 2.5\%)]$.
- For any tax year the maximum exemption thresholds are utilized, the maximum reduction of tax liability for single filers would be \$75 per taxpayer $[(\$2,500 - \$1,250) \times 6.0\%]$; the maximum reduction of tax liability for joint filers would be \$150 per taxpayer $[(\$5,000 - \$2,500) \times 6.0\%]$. The decrease to HIT collections will be \$16,312,500 $[(\$75 \times 82,500) + (\$150 \times 67,500)]$. The net decrease to state revenue will be \$9,624,375 per year $[(\$16,312,500 \times 62.5\%) - (\$16,312,500 \times 50.0\% \times 7.0\%)]$, and the decrease to local government revenue will be \$5,913,281 per year $[(\$16,312,500 \times 37.5\%) - (\$16,312,500 \times 50.0\% \times 2.5\%)]$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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